



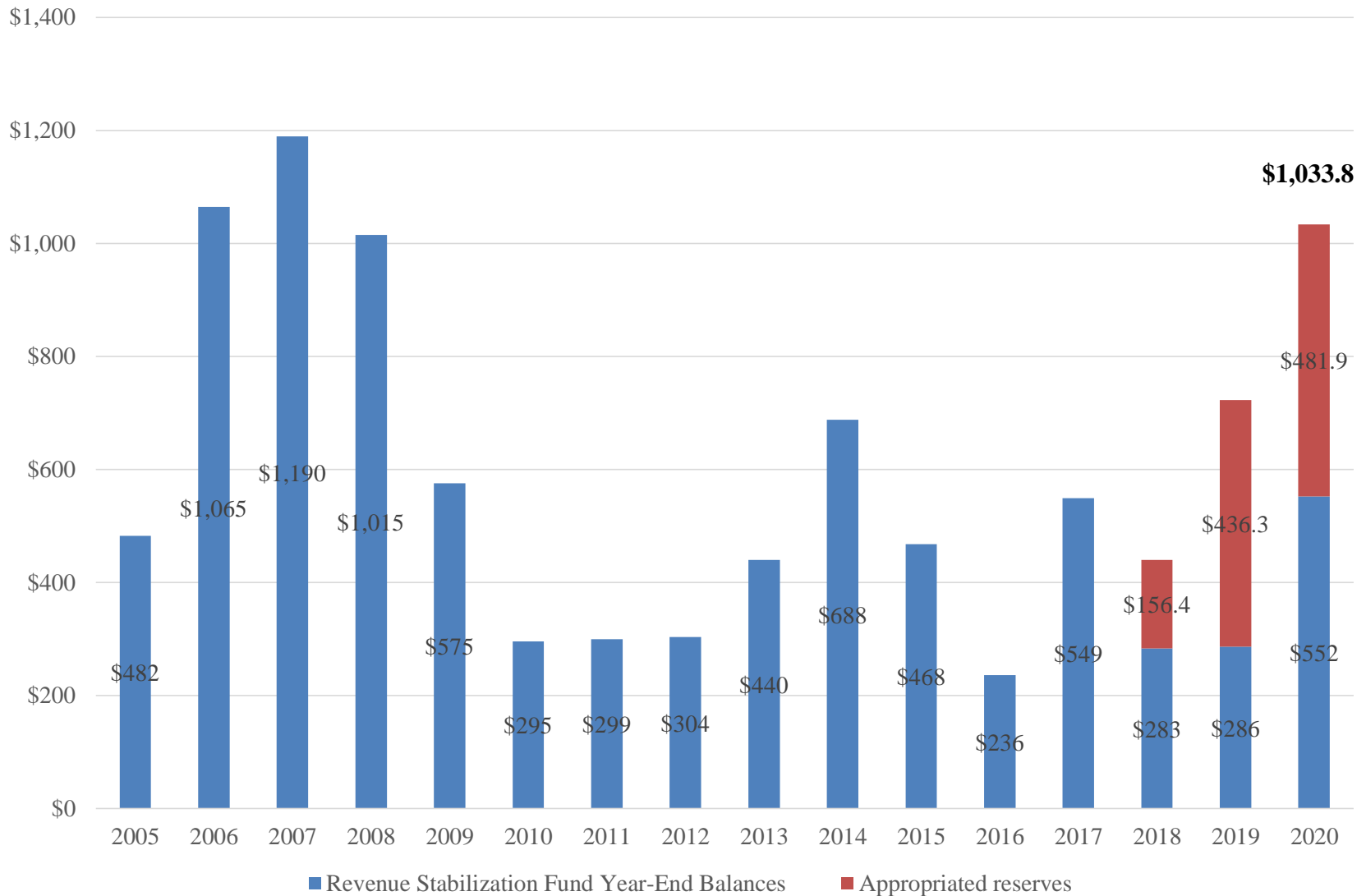
**State Budget Choices  
and  
“Economic Gardening” to Stimulate Local Economies**

**November 30, 2018**

# 2018-20 GF Revenues Healthy, But There are Budget Holes to Fill

- **Unfunded 2018-20 mandatory state budget needs are in the \$600 mil. range.** Money committees listed **another \$225 mil. or so in high priority needs. They do not include general K-12 increases.**
  - Last years' budget expected an estimated \$371 mil. in Medicaid expansion savings through reductions in indigent care and FAMIS pregnant women, CSB services, and incarcerated population health care, plus the new provider tax covering the state's 10% match for new recipients.
  - However, managed care savings not related to expansion did not materialize as expected. Therefore, **the new Medicaid forecast was raised by \$462.5 mil.**
- The administration and GA **reserved most of the \$555 million FY 18 surplus** to increase liquidity and preserve state AAA debt rating. By FY 2020, over \$1 bil. in state reserves are budgeted, or about 5% of GF revenues.
  - Some policymakers would like to increase reserves to 8-10% of GF revenues.
- **FY 2019 budget only needs 1.4% GF revenue growth. Current growth trends are in the 4 percent range. \$1 bil. in additional 2018-20 GF revenue is possible. However, a “collar” on non-withholding revenue growth could reduce initial biennial revenue forecasts by \$400 mil..**
  - HAC estimates \$602 million; SFC estimates \$728 million in new 2018-20 GF revenue.
- **Federal tax changes could yield significant new state revenues – if not returned to the taxpayer.** Without Virginia tax changes, Federal income tax changes will yield estimated \$600 million in additional state revenue in FY 2019 – growing to over \$900 million in FY 2024.
  - Federal tax reform for individuals expires after FY 2024.
  - Additional sales tax revenue likely from *Wayfair* decision on internet sales, but many large dealers already collecting. One issue - Virginia has to determine how to minimize “undue burden”. 2

## By FY 2020 State Reserves Will Total Over \$1 Billion Helping Shore Up our AAA Credit Rating



# Chances for a Substantial 2018-20 Upward Revenue Re-forecast Are Good

|                           | <u>% of GF</u> | <u>Actual<br/>FY 2018</u> | <u>Budget<br/>FY 2019</u> | <u>% Change<br/>Needed</u> | <u>Oct. YTD<br/>Actual</u> |
|---------------------------|----------------|---------------------------|---------------------------|----------------------------|----------------------------|
| Withholding               | 63.1%          | \$12,540.5                | \$12,870.2                | 2.6%                       | 4.1%                       |
| Est Payments/Tax Dues     | 16.8%          | \$3,472.9                 | \$3,368.3                 | -3.0%                      | 15.5%                      |
| Refunds                   | <u>-10.1%</u>  | <u>-\$1,907.6</u>         | <u>-\$2,054.7</u>         | <u>7.7%</u>                | <u>6.6%</u>                |
| Net Individual Income     | 69.8%          | \$14,105.8                | \$14,183.8                | 0.6%                       | 5.5%                       |
| Sales Taxes*              | 18.0%          | \$3,838.4                 | \$3,934.0                 | 2.5%                       | 4.7%                       |
| Corporate Income          | 4.4%           | \$861.9                   | \$912.0                   | 5.8%                       | -10.9%                     |
| Recordation               | 2.1%           | \$394.9                   | \$407.2                   | 3.1%                       | -7.4%                      |
| <b>Total GF Revenues*</b> | <b>100.0%</b>  | <b>\$20,509.0</b>         | <b>\$20,794.7</b>         | <b>1.4%</b>                | <b>4.5%</b>                |

\* Includes GF transfers

# Significant Revenues Accrue to Virginia Without Tax Policy Changes (\$Mil.)

| <b>By Source:</b>   | <b><u>FY2019</u></b> | <b><u>FY2020</u></b> | <b><u>FY2021</u></b> | <b><u>FY2022</u></b> | <b><u>FY2023</u></b> | <b><u>FY2024</u></b> |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Individual Provisions*  | \$532.1              | \$443.8              | \$466.7              | \$492.5              | \$520.0              | \$546.1              |
| Business Provisions   | \$29.4               | \$114.6              | \$181.5              | \$300.3              | \$417.2              | \$398.2              |
| International Provisions  | <u>\$32.6</u>        | <u>\$62.7</u>        | <u>\$5.5</u>         | <u>\$5.8</u>         | <u>\$6.0</u>         | <u>\$6.3</u>         |
| <b>Total</b>  | <b>\$594.2</b>       | <b>\$611.1</b>       | <b>\$653.7</b>       | <b>\$798.6</b>       | <b>\$943.2</b>       | <b>\$950.6</b>       |
| <b>By Expiration Date:</b>  |                      |                      |                      |                      |                      |                      |
| Temporary*  | \$517.3              | \$433.6              | \$455.7              | \$480.4              | \$506.8              | \$532.5              |
| Permanent   | \$76.9               | \$177.5              | \$198.0              | \$318.3              | \$436.4              | \$418.1              |
| * Most individual provisions are temporary and expire in 2025.<br>FY 2019 includes tax year 2018 revenues |                      |                      |                      |                      |                      |                      |

Source: Aubrey Lane Presentation to Combined Money Committee, August 19, 2018

| <b>Analysis of Est. Additional Internet Sales Tax Revenue</b> |                    |                        |
|---|--------------------|------------------------|
| <b>Est. Additional Sales Subject to Sales Tax</b>             |                    | <b>\$2,900,000,000</b> |
| <b>Est. Additional Sales Tax Revenue</b>                      |                    | <b>\$164,884,221</b>   |
|   |                    | <b>Additional Tax</b>  |
|   | <b><u>Rate</u></b> | <b><u>Revenue</u></b>  |
| <b>General Fund Unrestricted</b>                              | <b>2.025%</b>      | <b>\$58,725,000</b>    |
| <b>Direct Public Education</b>                                | <b>1.375%</b>      | <b>\$39,875,000</b>    |
| <i>By School-Age Population</i>                               | <i>1.125%</i>      | <i>\$32,625,000</i>    |
| <i>By SOQ Composite Index</i>                                 | <i>0.250%</i>      | <i>\$7,250,000</i>     |
| <b>Transportation</b>   | <b>0.900%</b>      | <b>\$26,100,000</b>    |
| <i>HMOF</i>   | <i>0.394%</i>      | <i>\$19,386,500</i>    |
| <i>Airports</i>   | <i>0.012%</i>      | <i>\$348,000</i>       |
| <i>Ports</i>  | <i>0.021%</i>      | <i>\$609,000</i>       |
| <i>Public Transit</i>   | <i>0.074%</i>      | <i>\$4,306,500</i>     |
| <i>Intercity Rail</i>   | <i>0.050%</i>      | <i>\$1,450,000</i>     |
| <b>Total State Add'l Annual Sales Tax at 4.3%</b>             |                    | <b>\$124,700,000</b>   |
| <b>Local Gov't Unrestricted</b>                               | <b>1.00%</b>       | <b>\$29,000,000</b>    |
| <b>Total Add'l Sales Tax at 5.3%</b>                          | <b>5.30%</b>       | <b>\$153,700,000</b>   |
| <b>Regional 0.7% Sales Tax for Transp.</b>                    | <b>0.70%</b>       | <b>\$10,531,227</b>    |
| <i>Northern VA (32.4% of state)</i>                           |                    | <i>\$6,569,007</i>     |
| <i>Hampton Roads (19.5% of state)</i>                         |                    | <i>\$3,962,220</i>     |
| <b>Historic Triangle 1.0%</b>                                 | <b>1.00%</b>       | <b>\$652,995</b>       |

# Managed Care Isn't Providing Savings As Forecast

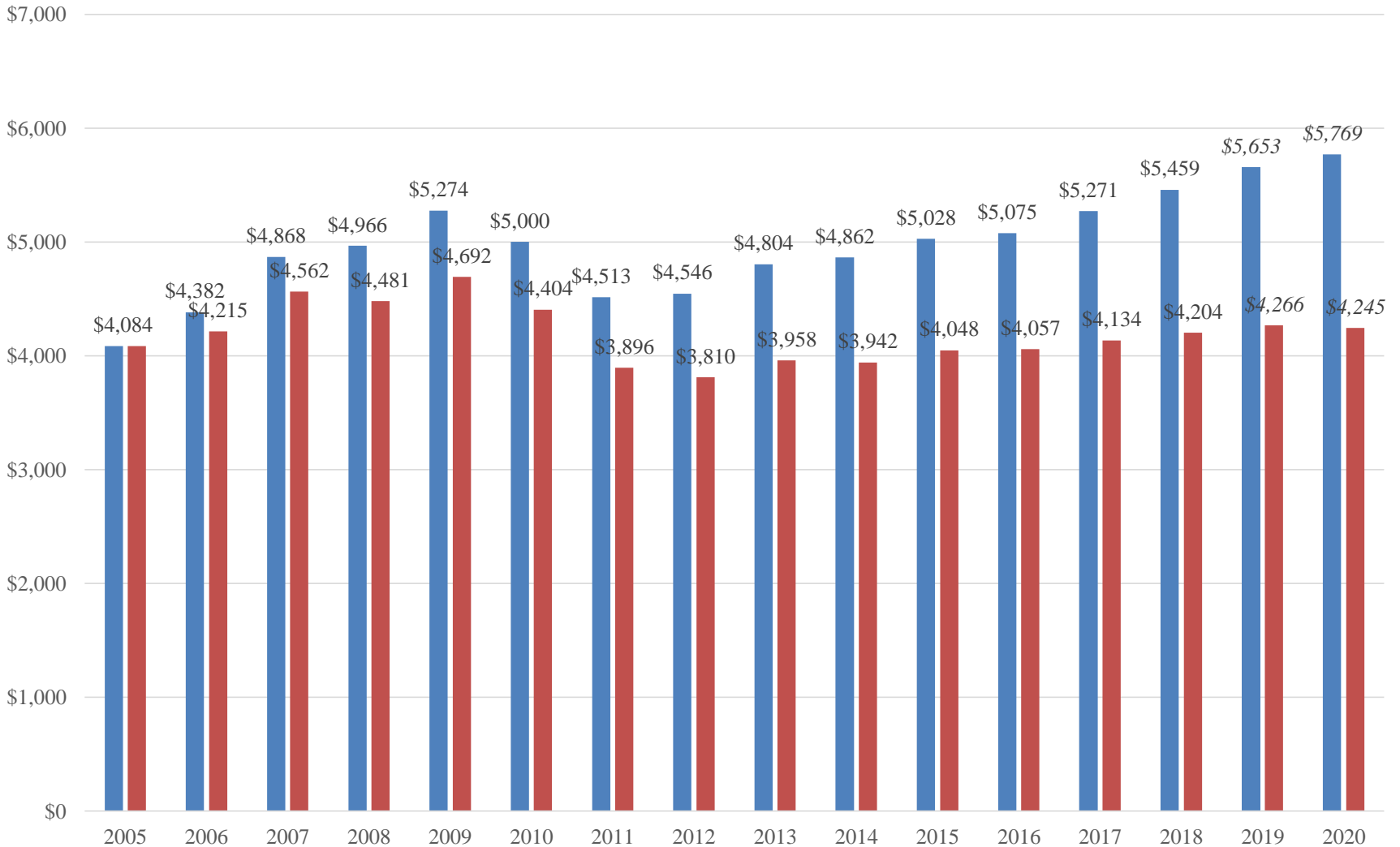
| <u>Fiscal Years</u> | <u>Avg. GF Annual Growth</u>               |
|---------------------|--|
| 2000-2009           | 8.8%                                       |
| 2010-2015           | 6.2%                                       |
| 2016                | 9.3%                                       |
| 2017                | 7.2%                                       |
| 2018                | 5.5%                                       |
| 2019 Forecast       | <del>-2.3%</del> 6.2% (7.6% w/o expansion) |
| 2020 Forecast       | <del>-3.4%</del> 2.6% (5.6% w/o expansion) |

# 2018-20 K-12 Budget Changes Were Relatively Minor

- Standards of Quality re-benchmarking basically funded inflation.
- \$131.3 mil. GF for the state share of a 3% salary increase starting July 1, 2019. *Localities will need to provide about 60% of total cost.*
- \$80 mil. GF to offset decreased Literary Fund support for teacher retirement.
- \$62.4 mil. GF and \$17.6 mil. in lottery funds to increase flexible lottery per pupil distributions to 40 percent of total lottery funds.
- **\$9.9 mil. GF to the Virginia Pre-School Initiative enhancements**, including increasing per pupil payments from \$6,125 to \$6,326 and helping with professional development and finding teachers in hard-to-staff schools.
- **\$7.1 mil. GF in FY 2020 for additional at-risk student** funding based on numbers of free lunch students from a basic aid boost of 1-13% to 1-14% in FY 2020.
- \$6.1 mil. GF for school division enrollment declines of over 5% over last 5 years and less than 10,000 students
- **\$1.5 mil. for Master Teacher Residency programs** for urban school divisions.
- \$45 million *reduction* from reduced teacher retirement and OPEB rates - 16.32% to 15.68%
  - VRS funded status for teachers has increased from a low of 62% in FY 2013 to 74% in FY 2019



## Real \$ State K-12 Funding Over \$400 per Pupil Less than FY 09 2018 Session State Per Pupil K-12 Direct Aid - All Funds Nominal and Inflation-Adjusted (CPI \$2005)



# More Funding Needed to Address the Achievement Gap

| <b>Major State-Funded At Risk Student Education Programs</b> |                        |
|--|------------------------|
|  | <b><u>FY 2020</u></b>  |
| K-3 Primary Class Size Reduction                             | \$130,388,333          |
| SOQ Prevention, Intervention, & Remediation                  | 112,984,901            |
| <b>At Risk Add-on</b>  | <b>107,079,544</b>     |
| Virginia Preschool Initiative                                | 75,653,511             |
| SOQ English as a Second Language                             | 65,479,578             |
| Early Reading Intervention                                   | 22,651,560             |
| School Breakfast and Lunch Initiatives                       | 14,872,985             |
| SOL Algebra Readiness  | 13,020,964             |
| Targeted Extended School Year Grants                         | 7,763,312              |
| Teacher Recruitment & Retention Grant Programs               | 1,931,000              |
| Math/Reading Instructional Specialists                       | 1,834,538              |
| Early Reading Specialists Initiative                         | 1,476,790              |
| Communities in Schools                                       | 1,244,400              |
| Master Teacher Residency Program                             | 1,500,000              |
| Petersburg Executive Leadership Recruitment                  | <u>350,000</u>         |
| <b>Major At-Risk Student Funding</b>                         | <b>\$558,231,416</b>   |
| <b>Total State K-12 Funding</b>                              | <b>\$7,255,768,288</b> |
| <b>At-Risk Student % of Total State K-12 Funding</b>         | <b>7.7%</b>            |

# Increasing the At-Risk Add-on Provides the Greatest Return for VFC Members

|                  | <u>LCI</u> | <u>FY 20 Basic Aid</u> | <u>% of State</u> | <u>FY 20 At Risk Add-on</u> | <u>% of State</u> |
|------------------|------------|------------------------|-------------------|-----------------------------|-------------------|
| <b>State</b>     |            | <b>\$3,336,206,414</b> |                   | <b>\$107,079,544</b>        |                   |
| Charlottesville  | 0.6772     | \$6,247,864            | 0.19%             | \$308,181                   | 0.29%             |
| Danville         | 0.2546     | \$16,951,986           | 0.51%             | \$1,957,758                 | 1.83%             |
| Hampton          | 0.2741     | \$57,196,194           | 1.71%             | \$2,926,474                 | 2.73%             |
| Hopewell         | 0.2032     | \$14,169,345           | 0.42%             | \$1,382,628                 | 1.29%             |
| Lynchburg        | 0.3700     | \$22,567,960           | 0.68%             | \$1,693,260                 | 1.58%             |
| Martinsville     | 0.2135     | \$6,161,747            | 0.18%             | \$732,938                   | 0.68%             |
| Newport News     | 0.2781     | \$88,340,250           | 2.65%             | \$5,695,046                 | 5.32%             |
| Norfolk          | 0.2958     | \$85,675,254           | 2.57%             | \$6,298,104                 | 5.88%             |
| Petersburg       | 0.2430     | \$12,111,821           | 0.36%             | \$1,700,109                 | 1.59%             |
| Portsmouth       | 0.2462     | \$42,439,651           | 1.27%             | \$2,927,514                 | 2.73%             |
| Richmond City    | 0.4925     | \$57,509,859           | 1.72%             | \$6,431,324                 | 6.01%             |
| Staunton         | 0.3867     | \$7,759,071            | 0.23%             | \$339,159                   | 0.32%             |
| Williamsburg     | 0.7703     | \$1,584,339            | 0.05%             | \$21,025                    | 0.02%             |
| Winchester       | 0.4244     | <u>\$10,921,520</u>    | <u>0.33%</u>      | <u>\$689,459</u>            | <u>0.64%</u>      |
| <b>Total VFC</b> |            | <b>\$429,636,861</b>   | <b>12.88%</b>     | <b>\$33,102,979</b>         | <b>30.91%</b>     |

# Review of Budget Pressures/Options for 2019 Session

- Fund mandatory spending items.
  - Medicaid under-forecast, federal disallowance of funds for Catawba and Piedmont geriatric hospitals, increases in offender medical costs, VITA settlement, Micron incentives, Hurricane Florence
- Increase reserves and liquidity?
- Budget one-time spending (such as capital/VRS) to maintain future flexibility?
- Modify Virginia's tax code and return revenue in response to federal changes?
- Respond to budget pressures by keeping additional revenue—particularly for K12 and mental health?

# VFC Economic Stimulus Committee

- Had two Committee meetings this fall with local “economic gardening” as the theme.

Discussed:

- The biggest challenges to economic development in our historic core cities.
- What can cities do better to enhance economic development?
- What assistance can the state and public/private institutions provide to meet local economic development challenges?

# Solution: Become a Great Place to Live and Work

- **Economic development relies largely on attracting, training/retaining talented people. Focus on workforce development and great schools with positive learning environments.**
  - Strong correlations between education levels and economic prosperity.
- **Enhance your city's amenities with both development and natural space**
  - Avoid gentrification by *inviting* diversity with amenity-filled public spaces such as parks, walking/bike trails, basketball courts, etc.
  - Design streets and bike paths that connect with outer communities.
  - Make it livable for all with mixed development, craft breweries, etc.
  - Replace heavy industry with civic institutions such as museums, galleries, cultural landmarks.
  - Exploit your natural resources and protect habitat.
- **Reboot urban renewal**
  - Celebrate diversity with high-quality, but affordable design for the middle income – e.g., teachers, public safety employees.
  - Build the downtown of the future with lots of small businesses, promote connectivity through multimodal options - vibrant walkable streets, transit, bike, - with few parking lots and garages.
  - Create economic impact by focusing large-scale green construction developments in centralized locations.

# Helping Communities Succeed

- *If* incentives, use for export industries, not market share businesses.
- Use small, low cost interventions to prototype larger scale projects (e.g., bike lanes, pedestrian crossings, landscaping, park amenities, traffic calming). Residents and stakeholders are able to co-create change and experience improvements as they go. A better alternative to the big project model with lower risk and higher returns. *See [www.strongtowns.org](http://www.strongtowns.org)*
  - Provide matching grants and resources to blocks of individuals wanting to invest in improving the look of their street. Addressing the real problem -- a shared lack of confidence in the neighborhood -- will pay huge returns. Landscaping, painting crosswalks, and patching sidewalks, etc., can pay big dividends.
  - Allow regular investors to use their resources to invest in small scale projects, improvements that often don't neatly fit standard financing models.
- Address social challenges through better healthcare choices, housing and transportation options, food access, and job creation, training, and retention programs.
  - Community Wealth Building programs, Virginia Community Capital partnerships

# State Economic Development Initiatives of Particular Interest

- **VEDP** initiatives to help cities include: creating a customized workforce recruitment and training program in collaboration with VCCS; enhancing Virginia's portfolio of development-ready sites; implementing robust marketing/branding programs; and proposing targeted solutions to improve overall tax and local competitiveness.
- **“Go” Virginia**
  - Identifies regional strengths and funds programs to build on those strengths.
  - **VFC committee: Needs broader involvement and innovative input using local leadership to broaden the idea pool.**
- Leveraging **Opportunity Zones** using Industrial Revitalization Funds and a new **“Virginia Gateway Communities Program”**.
  - DHCD *proposed* “Gateways” program will target local small business infrastructure needs, provide technical expertise and limited financial resources.



# Other Economic Development Initiatives of Interest

- **Virginia Community Capital**
  - Established in 2006 by a group of bipartisan Virginia legislators and seeded with a \$15 million state-backed loan. Its mission is to attract resources to make a difference in underserved markets around Virginia.
- **Virginia is for Entrepreneurs**
  - ✓ *VA4E* connects entrepreneurs seeking financing and support resources with investors looking for opportunities. A network of founding partners including *The Launch Place* and *757 Angels*.
  - ✓ *The Launch Place* strives to foster an environment for new and serial entrepreneurs to raise capital and garner the support system needed to take their products and/or solutions into the market place in the Danville Region.
  - ✓ *757 Angels, Inc.* connects early stage businesses seeking capital with high net worth investors who have an appetite for early stage risk in order to encourage successful new business growth in Hampton Roads.
  - ✓ These are organizations that also offer business consulting, plan development, and mentoring, workshops and networking, competitor analysis, market research, and financial modeling.